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SUBJECT: OECD COUNCIL AND ENHANCED ENGAGEMENT PARTNERS DISCUSS
DEVELOPMENT

REF: A) PARIS 61, B) SECSTATE 5422

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11. (SBU) Summary: The Council of the Organization for Economic Cooperation and Development (OECD) met in an enlarged session with Enhanced Engagement and Accession Country countries to discuss the development dimension of OECD work on climate change, trade, taxation, and food security. The discussion will feed into the eventual articulation of "OECD Development Goals" as requested by last year's Ministerial Council Meeting. The session was also designed to signal to Enhanced Engagement Partners the interest of the OECD Council in hearing their views on OECD involvement in these areas. Council members for the most part used the meeting to showcase their own aid efforts, but also voiced support for OECD work in food security, integrating climate change into development, and mobilization of domestic resources (such as taxation). USOECD Ambassador Kornbluh urged the OECD to choose a limited number of issues, work horizontally, and invite countries to participate which have demonstrated a commitment to sound economic governance. The two Enhanced Engagement partners which spoke brought different viewpoints: the delegate of Brazil focused on his country's success in riding out the global financial crisis; the delegate of India highlighted the differences between "lifestyle emissions" of OECD countries and "survival emissions" of developing countries and his hope that the OECD would engage in more frank discussion of these divides. The Secretariat is working to pull together a conclusion from these development meetings for the upcoming Ministerial Council Meeting in May. End summary.

OECD COUNCIL MEETS ON DEVELOPMENT WITH ENHANCED ENGAGEMENT PARTNERS

12. (U) on January 21, the OECD Council met in an enlarged session dedicated to development issues with Enhanced Engagement Partners and Accession countries invited to participate. Partners Brazil, China, Indonesia and India attended (South Africa was absent.) Accession countries Estonia, Slovenia, Israel and Russia also attended. Accession and Enhanced Engagement countries were represented at the level of Deputy Chief of Mission or below.

13. (U) Before opening up debate, the OECD Secretariat gave a brief presentations on "the Impact of the Crisis on Emerging and Developing Economies" and outlined areas where OECD work in climate

change, food security, tax and domestic resource mobilization, and trade has implications for developing countries.

EMERGING AND DEVELOPING ECONOMIES WEATHER THE CRISIS

14. (U) The OECD presentation on the global economic crisis highlighted the extent to which the emerging economies have led the world out of the economic crisis. Many of these countries were reaping the benefits of macro policies put in place years ago. Nonetheless, the economic crisis had dealt a blow to development commitments and enforced the need for cooperation in development architecture. There were setbacks to achieving the Millennium Development Goals (MDGs). Protectionist reactions to the crisis had not yet emerged, but this needed to be closely monitored. Going forward, trade and investment were drivers of growth, but green growth and innovation provided new opportunities for developing and emerging economies. Trade between developing countries was now greater than with OECD countries. Developing countries needed to build and reinforce institutions and find new domestic resources, such as taxes. Corruption was a serious problem, particularly in connection with oil resources. OECD Development Center Director Javier Santiso concluded that the economic crisis had acted as an accelerator of change. It was also an opportunity for "humility" - to see that best practices were not only in developed countries. He encouraged more south-south peer learning.

BRAZIL EXPLAINS HOW

15. (U) The delegate of Brazil (Minister Counselor Ricardo Guerra, head of the OECD Section within the Brazilian Embassy in Paris) noted that Brazil had been one of the last economies to be hit by economic crisis, and one of the first to recover. Brazil's economy resumed growing at end of 2009, and consumer and business confidence was going up. Brazil adopted a number of financial policies including increasing the social safety net and increasing minimum

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wage. In addition, Brazil used its financial resources to sell foreign currency and buy local currency, kept its interest rates low, cut taxes to stimulate economy, and revised its primary surplus target. The fiscal impact has been a small increase in public debt. Net public debt increased to 44% of GDP. For Brazil the main lesson was that it needed counter-cyclical policies and reserves. He also credited "heavy handed prudential financial regulations." According to Guerra, developing countries needed to rely on their own resources to survive the crisis.

OECD JOINT WORK ON CLIMATE CHANGE, FOOD SECURITY, TAXATION, AID FOR TRADE

16. (U) Climate Change - Environment acting Deputy Director Helen Mountford noted that in the future the main emitters of greenhouse gasses will be the emerging economies. She summarized the conclusions of the Copenhagen COP 15 conference and highlighted areas where OECD could contribute, including providing policy advice on how to build up a global carbon market, proving information on efficient and effective policy mixes for emissions reduction and adaptation nationally and sub-nationally and tracking progress in implementing adaptation and mitigation actions (note: OECD is already tracking bilateral finance flows to support mitigation actions through the Development Assistance Committee (DAC), and has recently developed a marker for adaptation. End note).

17. (U) Ms. Mountford noted that OECD was positioned to work on finance issues, including how to raise public and private finances (including innovative finance) and monitoring and reporting on finance flows. OECD was set to continue work on guidelines and guidance on integrating adaptation into development cooperation and national development policies, and to work on MRVing targets, actions and finance to enhance transparency and progress, and on market mechanisms (CDM, sectoral approaches, cap-and-trade, etc). And finally, the OECD provided a forum for countries to discuss key issues outside formal negotiations and build common understanding. OECD worked with developing countries through the DAC-EPOC Task Teams, the Africa Partnership Forum, and the Roundtable on Sustainable Development.

MEXICO ON COP16

18. The Mexican Ambassador reported that expectations were high for

the upcoming COP16 meeting in Mexico. Mexico had been disappointed at the Copenhagen outcome, and hoped that the COP 15 commitments would be made binding at the COP 16 meeting. Mexico supported the concept of differentiated responsibility, but explained that this should not be understood to be a "license to do nothing." Climate change was multi-disciplinary area and impacted areas ranging from development assistance to trade to Intellectual Property Rights (IPR). The OECD's advantage lay in its ability to muster multi-disciplinary approaches to the issue.

¶9. (U) Food Security - Development Cooperation Directorate Director Richard Carey noted that the recent food crisis had been mitigated, but had not disappeared. India was in fact facing a poor monsoon season. Carey stressed that food security was inextricably linked to the credibility and efficiency of the international trading system. He noted that the DAC had been tasked to track food security commitments. DAC was also (with Gates Foundation funding), working on African policy improvement.

¶10. (U) Taxation - The Director of the OECD Center for Tax Policy, Mr. Jeffrey Owens explained that tax systems can provide a sustainable revenue base, an antidote to aid dependency, a stable and predictable pro-growth environment, and play an important role in state building and recovery from conflict. By making government more accountable, a good tax system supported democracy. He noted that he was spending one third of his Directorate funds on non-OECD members. They had trained more than 15,000 tax official in China, and had worked with South Africa (where government revenues have increased by 30% due to better tax collection). However, donor countries spent less than 1 percent of aid funding on taxation support. He encouraged donors to match resources to rhetoric. He also noted that the Center was working with the DAC to determine how they together could respond to a follow-up request from a group of African countries that want to tap into the best practices and lessons learned by OECD-member countries on tax and domestic resource mobilization approaches.

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¶11. (U) Aid for Trade - The Director of the Trade and Agriculture Directorate, Ken Ash said trade plays an important part in a wider strategy to improve growth, although open markets alone are not enough to ensure growth and development. He emphasized that complementary policies are also needed to provide a stable macroeconomic environment, effective systems of governance, improved human capital and physical infrastructure, etc. He noted that less developed countries face specific constraints, such as weak institutional capacity and limited or costly access to credit. Aid for Trade, a joint WTO-OECD initiative, is even more important in the current context as developing countries have been hit hard by the economic crisis and subsequent trade collapse, and the tightening of trade finance. The OECD can complement the Aid for Trade monitoring with evaluating the impact of specific measures, identifying binding constraints to trade expansion, maximizing the impact of trade on growth, and developing good practice guidelines for complementary policies.

OECD MEMBERS WELCOME WORK ON SUSTAINABLE DEVELOPMENT, FOOD SECURITY AND MOBILIZING DOMESTIC RESOURCES

¶12. (U) Interventions from Mexico, France, Greece, Germany, the Netherlands and Norway highlighted those countries intentions to prioritize the Copenhagen "Fast Start" and praised OECD's work on monitoring adaptation and mitigation and integrating climate change issues into development. Delegates also welcomed OECD work on food security and mobilizing domestic resources. The UK delegate called the OECD's emerging work on tax and development with the DAC a good example of a successful horizontal approach between directorates. He stated that members should identify Part I (assessed) resources for the next biennium to support such activities. Korea noted that development would be one of its priorities for the upcoming G-20 meeting in Seoul.

¶13. (U) Several countries spoke of the important work being done by the OECD's Development Center and lamented that a number of major OECD countries (e.g., U.S., Japan, Canada, and Australia) were not members. Switzerland, in comments that were echoed by the Netherlands and Korea, issued a call for all OECD embers to join for reasons of both resources and visibility. Enhanced Engagement

country Brazil said that these major OECD countries could play a fundamental role in the Development Center, and urged them to re-think their position.

¶14. (U) USOECD Ambassador Kornbluh welcomed the OECD's increased focus on development issues. She pointed out that the U.S. was upgrading development to be a central pillar of its foreign policy, along with defense and diplomacy. US development principles include shared responsibility between donors and recipients, innovation that can transform lives and speed development, gender (investment in women and girls' health, education, etc.) and a whole-of-government approach. The OECD can bring together best practices and donor coordination in support of development, but must be selective due to human and financial resource constraints and concentrate on areas where there is congruence between OECD core competence, committee expertise, and member priorities. Future projects should be guided by clear demands from developing countries willing to share development responsibility and having sound economic policies and good governance.

INDIA ARGUES FOR FRANK DIALOGUE

¶15. (U) The Indian delegate gave a spirited presentation on why India was ambivalent towards the OECD. Saying he was speaking personally and without instructions, he said that the OECD should be less timid and engage in more honest dialogue. For example, on the issue of border tax adjustments, India thinks it could be a potential disaster, and yet it is talked about as if it is a done deal without any discussion of its negative aspects. Or on climate change, should there not be a discussion on the difference between lifestyle emissions (low gas mileage cars) and survival emissions? Or on IPR, shouldn't there be a frank discussion on the impact of IPR protection on the availability of technologies for developing countries? He said that he recognized that the OECD is doing some good things, citing as examples taxes and steel. And he suggested that the OECD could in the future focus on such areas as innovation, education, infrastructure, and technology. But he also hoped that OECD could capture the spirit of frank dialogue with the developing countries.

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Next Steps

¶16. (U) The OECD Secretariat is working to synthesize the results of the January 15 (ref A) and January 21 meeting and is expected to call an additional meeting of the Development Goals Working Group. As instructed by the 2009 Ministerial Council Meeting (MCM), a report will be prepared for the 2010 MCM on OECD Development Goals. Member input will be important to shape this outcome, and determine how far members wish to see the OECD advance in this area. Outcomes could range from an instruction from Council for Committees to jointly advance work on certain areas (such as climate change, food security or tax issues) to specific project proposals to be funded from the 2011-2012 Program of Work of Budget (and/or through voluntary contributions). Kornbluh